



Current Developments in Cooperative Banking in India

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- The cooperative banks/credit institutions constitutes the second segment of Indian banking system, comprising of about 14% of the total banking sector asset (March 2007).
- Bulk of the cooperative banks operate in the rural regions with rural coop banks accounting for 67% of the total asset and 67% of the total branches of all cooperative banks.
- Share of rural cooperatives in total institutional credit was 62% in 1992-93, 34% in 2002-03 and 53% in 2006-07.
- Cooperative banks have an impressive network of outlets for institutional credit in India, particularly in rural India (1 PACS per 7 villages).

- In March 2007, there were 97,224 PACS in rural India against 30,393 branches of commercial banks (more than 3 times of outlet of coop banks).
- In March 2007, there were 102 savings A/C and 113 cooperative bank members per 1000 rural in India.
- Cooperative banks (both rural and urban) cater to small and marginal clients.
- Financial health of the cooperative credit institutions, particularly the rural cooperatives, has been found to be poor by several Committees.

Structure of Cooperative Banking (March 2007)

Institution	Number	No. of br.	Asst Share (%)
A. Rural Cooperative Credit Structure	107497	112891	67
(i) Short Term (ST)	106781	111090	58
• State Coop Banks (StCB)	31	938	15
• District Central Coop Banks (DCCB)	369	12928	29
• Primary Agri Coop Societies (PACS)	97224	97224	14
(ii) Long Term (LT)	716	1800	8.3
• State Coop Agri and Rural Dev Banks	20	1104	4.4
• Primary Coop Agri and Rural Dev Banks	696	696	3.9
B. Urban Cooperative Banks	49805	56600	33
(i) Primary Coop Banks (PCB)	1770	8565	29
(ii) Primary Non-Agri Coop Societies	48035	48035	4

Issues facing the cooperative banking segment in India

- Governance Issues – Dual Control and Borrower driven structure
- Management and HR Issues
- Issues relating to Finance

Governance Issues - Dual Control

- “Cooperation” is a State subject under the Indian Constitution; hence all cooperative societies are governed by the Cooperative Societies Act of the State. Registration, incorporation, management, amalgamation etc are governed by the RCS of the particular State.
- At the same time, certain provisions of the Banking Regulation (BR) Act, 1949, are applicable to the cooperative banks that accept public deposit. In the rural structure, StCBs and the DCCBs and in the urban structure, PCBs are covered by these provisions of the BR Act.
- This “duality” of control and regulation has given rise to serious problems in the governance structure (such as interference by the State Govt. due to its combined role as dominant shareholder, manager, regulator, supervisor and auditor; further the precise demarcation of the powers between the two regulators is ambiguous.)

Governance Issues - Borrower Driven Structure

- The rural cooperative structure in India is focused mainly on credit. The upper tiers refinance the lower tiers hence the structure is driven by borrowers at all levels.
- Depositors are either non-members or “nominal” members without voting rights while the borrowers have full voting rights.
- This is inconsistent to the concept of mutuality (thrift and credit going hand in hand).
- This also prevents any incentive for good governance since the depositors, whose money is being intermediated, have no say in the management of their own money.

Management and HR Issues

- Management problem arises due to the impairment of Governance. But following are also important
- Poor human capital leading
- Generally ageing staff profile characterised by inadequate qualification and training.

Issues relating to finance (Rural structure)

- The poor recovery of outstanding credit by the rural cooperative banks makes the whole system unsustainable.
- Lack of standardised business model and risk management systems
- Over exposure to the agri sector and lack of diversification of the loan portfolios.
- For the LT structure, the loan portfolio consists of a single product - long terms agri loan of > 5 years term.

Revival and Reform initiatives

- Revival package (2006) for Rural Short Term Coop Credit Structure (RSTCCS)
- Draft revival package (2008) for Rural Long Term Coop Credit Structure (RLTCCS).
- RBI's vision document (2005) for Urban Cooperative Banks.

Revival Package for RSTCCS

1. Financial Revival: Assistance by Govt. of India to eligible credit societies for (i) wiping out accumulated losses; (ii) Bring a minimum CRAR of 7%; (iii) refund of share capital to the State Govt; and (iv) cost of special audit
2. Capacity Building and Technical Assistance: For capacity upgradation, training, installing common accounting and monitoring systems and for computerisation.

The estimated budget for these 2 components is Rs. 13,596 Crore; to be shared by Central Govt., State Govts and RSTCCS units in the proportion 68:28:4

3. Institutional, legal and regulatory reforms: Amendments in the State Cooperative Societies Act; in some provisions of the BR Act (1949) and in the NABARD Act to enable to refinance PACS
 - remove State intervention in financial and administrative matters
 - give voting rights to depositors
 - pave way to regulatory control by RBI
 - bring coop banks on par with the commercial banks in terms of regulatory norms

Revival Package for RSTCCS: the status so far

- As of Sept 2008, 25 out of 29 States have executed MoU with GoI and NABARD
- As of March 2008, special audit was completed in 59294 PACS in the country
- As of Sept 2008, governments of 8 States have passed bills to amend their coop societies Acts.
- Common Accounting System (CAS) and Management Information System (MIS) have been introduced along with human resources development initiatives in the States willing to participate.

Thank you